Main Principles of RBI’s Credit Policy and Credit Decision Process including ESG Evaluation Process

RBI’s business model is geared around the high-level strategic goal of creating long-term value. Responsible lending is a significant component of this model. We achieve this with a lending policy that is based on continuity. We remain a fair and reliable lender to businesses with future prospects, even in difficult times, and we hold a clear position regarding the handling of sensitive business areas. In light of the environmental challenges and the changing expectations of customers and supervisory authorities, we continuously develop our policies and processes in order to ensure the integration of sustainability topics and risks into the lending decision process.

The Code of Conduct is part of our lending policy. All employees involved in lending are accordingly obliged to act responsibly and also to carry out their supervising duties with great care. Likewise, the reputation of our banking group must be considered in all activities and decisions. Our executive managers are responsible for compliance with these standards in their respective areas of responsibility.

As a financial institution, we are aware of our role in shaping a sustainable future and, in particular, our contribution to the achievement of various Sustainable Development Goals (SDGs). Making progress toward the SDGs already demanded huge effort on the part of all concerned even before the COVID-19 pandemic delivered additional challenges, as well as setbacks in some cases. The SDGs negatively affected include “Health and Wellbeing”, “No Poverty”, “Decent Work and Economic Growth”, “Industry, Innovation and Infrastructure”, “Reduced Inequalities” and “Gender Equality”. With this in mind, RBI has provided active support throughout the pandemic and the resulting economic crisis in the form of continuous lending and higher sovereign limits in some of the CEE markets in which it operates, thereby helping to support the public guarantee schemes introduced to combat the consequences of the pandemic. These measures were aimed at all sectors, and SMEs in particular.

Health and wellbeing

In addition to promoting health and healthy behaviors among its employees, RBI endeavors to support public health and wellbeing by continuing to provide lending solutions to players in the healthcare industry, such as hospitals and healthcare facilities, developers of healthcare products, and retirement homes. The healthcare sector is one of the areas directly affected by the COVID-19 pandemic. As well as posing a huge burden in its own right, reports suggest that the pandemic has undone years of progress toward the third SDG. This makes increased support for the healthcare sector essential, and RBI is making an important contribution through its core competency, i.e. the provision of financing. Accordingly, the healthcare sector has been defined as one of the areas to be targeted with increased financing. In 2020, RBI increased its lending volume for the healthcare sector in line with its efforts to help make society healthier.

In addition, RBI has confirmed its commitment to a more sustainable and healthier future by limiting further growth in the Tobacco industry. The financing of tobacco producers is not permitted in microfinancing and SMEs financing.

Furthermore, for SMEs and micro businesses casinos, gambling providers and bookmakers are not supported, as they are considered to be damaging to social wellbeing and hence to people’s health. There is a special policy for corporate customers that regulates relationships with customers from the gambling sector and only permits relationships with selected companies. These are subject to an extended compliance review that takes place during customer onboarding and regularly throughout the entire customer relationship.

Equality

To reduce inequality and ensure fair opportunities for all, access to finance and financial services must not be dependent on gender criteria. RBI incorporates gender equality into its core business of lending. Accordingly, the Group uses standardized selection criteria and conditions for its private customers. The selection criteria for financing do not take the customer's gender into account, thereby ensuring equal treatment and the same lending conditions for all. This is important because seemingly small differences in conditions can have a significant impact on the disadvantaged party in the long term.

Clean energy

RBI endeavors to support the transition to a low-carbon economy with its lending activity. To this end, it has further expanded its lending policy concerning renewable energy projects across all areas of the Group, with a particular focus on wind farms and photovoltaic power plants. In this way, the Group intends to support the market in transitioning to clean energy.

Furthermore, RBI aims to prevent the mobilization of nuclear power by ensuring that we do not finance any nuclear power plants, companies that extract, distribute, or trade in nuclear fuel or companies that manage nuclear waste. Cooperation with power plant companies that operate nuclear power plants is continued only if the nuclear operations are strictly separable.

Above and beyond this, RBI has created a dedicated policy for energy from thermal coal and has committed to significantly reducing its exposure in terms of thermal coal and thermal coal trading assets. As part of this, it also wishes to support existing customers with their transition, e.g. through a clear strategy for reducing dependence on thermal coal and/or CO2 emissions and by increasing the share of renewable energies in its portfolio.

Job security and prosperity

As a financial institution, RBI believes it has a responsibility to promote and expand access to banking, insurance and financial services for all. In this way, it helps to ensure long-term economic growth as well as combating poverty. With this in mind, RBI provides financing for SME start-ups, micro business and individuals. This has proven to be particularly important during the COVID-19 pandemic and the subsequent economic crisis. RBI demonstrated its reliability as a partner to its customers, continuing its lending business and supporting the upturn by providing credit facilities for government programs in all of its markets.

In addition to providing financing, RBI pursues a sustainable lending practice with a view to ensuring long-term value generation for its customers. The customer's ability to repay is crucial and collateral alone does not form the basis for lending. No speculative products are offered and foreign-currency financing is granted only in justified exceptional circumstances, in which case the customer is extensively informed about the associated risks.

To this end, RBI has established policies and processes to ensure that its lending activity is consistent not only with the Group's risk-bearing capacity, but also with the individual customers' debt servicing capacity. We pay particular attention to preventing overindebtedness and ensure that customers are able to continue their activities in the long term. Different policies and measures apply depending on the respective customer segment. With regard to refinancing, we ensure that the refinanced loan is closed and that lending after restructuring is regulated through appropriate restrictions in order to give our customers time to resolve financial difficulties.

If customers still encounter payment difficulties, taking a proactive approach to the affected customers is a matter of principle for us and forms part of our promise as set out in the RBI vision and mission. RBI assists customers in solving their problems as soon as it notices the first visible signs of payment difficulties. Furthermore, it tries to find a suitable solution for the situation at hand within the scope of its options and the customer's financial situation. If difficulties arise with servicing loans, RBI looks at each case individually and assesses how the customer can be helped by means of contractual concessions within financially justifiable limits, takes into account regulatory requirements and endeavors to work with the customer to find a fair solution. In doing so, particular attention is paid to the customer's changed circumstances. In the event of a dispute, RBI follows a fair and professional complaints procedure.

Supporting infrastructure

Making it easier for small businesses to access financial services and improving their integration into the market is an essential component of a sustainable economy. This applies in particular to companies in developing countries, where inequality is generally more visible and can have a more pronounced negative impact. With its strong presence in the CEE market, RBI plays an important role in supporting the local industry, innovation and infrastructure. The Group is aware of its responsibility in this respect, which is why it participates in various programs in order to offer loans to SMEs at more favorable conditions (e.g. lower prices, lower/no collateral) and with longer terms, thereby reducing the financial burden for customers. Investments like these will become even more important in light of the impact of the COVID-19 pandemic, as they will help to pave the way for a long-term recovery.

In its lending activity, RBI gives priority to projects with a long-term positive effect in terms of establishing resilience within local communities. Among other things, it seeks to achieve this by supporting infrastructure projects. The Group uses its strong presence in the CEE markets to support local companies, municipalities and governments by financing various infrastructure projects, thus making a sustained contribution that boosts local development.

Climate protection

Irrespective of the customer industry, the lending decision process is carried out on a case-by-case basis following standardized principles and guidelines and in line with a comprehensive due diligence process. There is a clear personnel and functional separation between the business activities and all risk management activities. In addition to traditional "hard facts" and numerous qualitative criteria for all customers, our internal rating model also incorporates an evaluation of the management, which is responsible for the adequate handling of environmental and social topics within the company. Furthermore, an evaluation is performed as to whether a customer is subject to special environmental or social risks, including human rights violations and health risks, and whether a potential borrower follows the existing general and industry-specific rules with regard to the environment, human rights, and health. Contractual conditions are recorded in a specially developed database and monitored by a dedicated covenant monitoring team. All the contracts currently recorded in the database have at least an annual reporting obligation until the end of their term. When a report is due, a monthly reminder is issued until the report is submitted. If a borrower is unable to meet the conditions, it typically submits a waiver request. The lender may then approve the request or demand repayment of the loan depending on the respective risk assessment and the decision of the corresponding RBI bodies. Where a margin adjustment is linked to an ESG rating, we refer to an external rating agency.

Protection of ecosystems

Financing or participating in transactions or projects that involve the risk of sustainable damage to the environment (e.g. destruction of the rain forest, land, air or water pollution) is not consistent with RBI's business policy. For each financing decision, the responsible employees must take the potential negative environmental impact and the resulting damage to RBI's reputation into account. This procedure applies to all of RBI's business areas. Furthermore, no credit facilities in microfinancing or SME financing are provided to companies in the iron, non-ferrous metal, precious metal or mining industries.

Human rights and peace

We are committed to not directly or indirectly financing transactions, projects, or parties that are suspected of violating human rights and, in particular, that use forced or child labor or that contravene the legal working and social obligations of the respective countries, the applicable regulations of international organizations and, in particular, the relevant UN conventions and rights of the local population or indigenous people.

We also seek to prevent the mobilization of arms trading by ensuring that we do not finance any manufacturers of or dealers in controversial weapons or their relevant suppliers, as well as wholesale arms dealers. Cooperation with companies and businesses that manufacture defense products in addition to other products is only continued selectively and if the military operations and related activities are strictly separable.

In addition, the Compliance department conducts a comprehensive advance review of potential business partners in order to prevent loans from being granted to counterparties with a questionable reputation and, in particular, to avoid the risk of money laundering and the financing of terrorism. Among other things, this review includes the business partner's business activities, the origin of funds and other collateral, the purpose of the loan, the payment of the loans, and the source of repayments. Accordingly, the specialist department and the risk department involved in the lending process for a business partner are equally responsible for consulting the Compliance department if they identify or suspect reputational risks or the risk of money laundering or the financing of terrorism.

In addition, positive statement by the Compliance Department after in-depth assessment is performed in order to avoid lending to counterparties with questionable reputation, and especially with money laundering, terrorist financing risks (e.g. business activity, source of funds and other collaterals, purpose of the credit, disbursement of loans, source of repayment). As such, both business and risk department involved in the lending process of a counterpart are equally responsible for requiring involvement of the Compliance Department in case reputational, money-laundering or terrorist financing risks are identified or suspected.

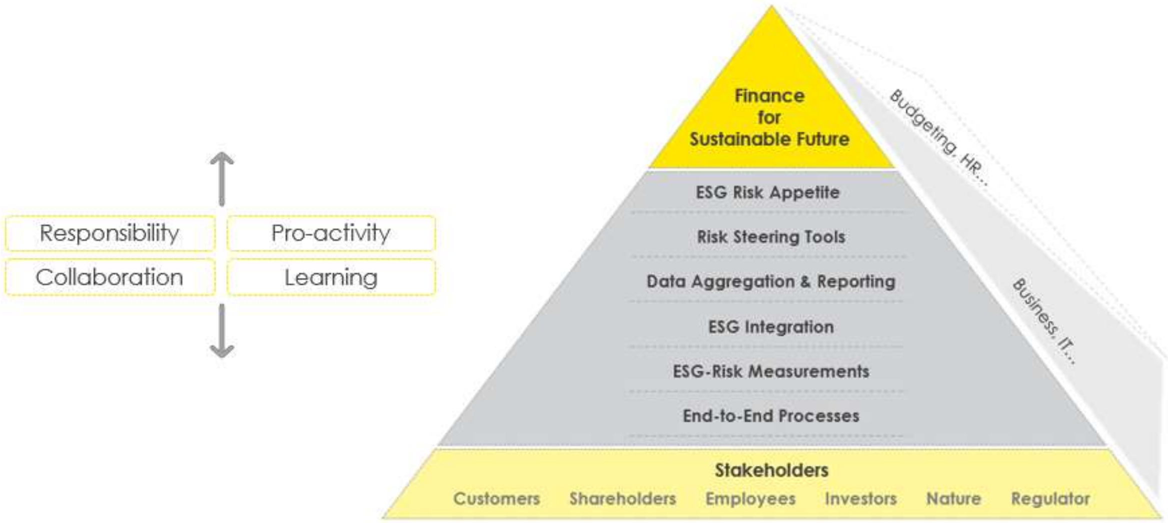
RBI is also a signatory of the Global Compact of the United Nations.

ESG Evaluation Process

RBI's internal policies and processes help to further strengthen governance and ensure that our actions are geared toward our long-term goals. The credit portfolio of the Group is controlled by means of the portfolio strategy. This ensures that lending in different countries, sectors or types of product types is limited, our exposure is adequately diversified, and concentrations of undesirable risks are avoided. In response to the changing market environment and the COVID-19 pandemic, RBI took its existing periodic review process as an opportunity to fundamentally revise its portfolio while evaluating the short-term and long-term changes in the industry (industry matrix) and its customers' positioning. This is intended to ensure that lending practice remains at a high standard in the future. The risks and potential of various industries in the individual countries and the creditworthiness of individual customers are continuously evaluated in order to allow a timely response to any changes. Lending guidelines and limits for future structuring of the credit portfolio are developed on this basis. In addition to the existing lending criteria, RBI already takes into account ESG-related risks at industry and country level and will expand this to the individual customer level. RBI is committed to including climate and environmental risks in its risk processes and policies.

Specific lending criteria for individual customer segments and countries are resolved by credit committees consisting of representatives of the front office and back office areas or by the full Management Board. The composition of the credit committees varies depending on the customer group for corporate customers, financial institutions, public authorities, and retail. They make all associated lending decisions within the framework of the lending approval process and the rating and volume-oriented assignment of responsibility (details on the loan decision process and the credit portfolio management can be found in the 2020 RBI Annual Report).

In addition to the existing efforts to minimize environmentally damaging activity, RBI has adopted sustainability and sustainable finance as a key topic. In line with the expectations of the market, the industry and the supervisory authorities, we have already gone one step further by starting to integrate the ESG evaluation into our processes. The inclusion of ESG aspects in risk management will takes place at several levels within the organization, taking into account the needs and expectations of the various stakeholders.



Sustainable finance is already an important part of RBI's corporate credit policy and is intended to ensure the integration of ESG-related risks into risk management and underwriting processes. It is also aimed at drawing attention to industries that are enabling the transition to a low-carbon economy. On the one hand, we want to support customers that have dedicated themselves to developing solutions for a greener economy. On the other hand, we focus in particular on customers from industries with low ESG scores that wish to improve their environmental compatibility, have environmental strategy in place and want to achieve the transition to low-carbon economy.

As well as limiting and controlling the risks in connection with ESG factors, the Group endeavors to support activities that contribute to a low-carbon economy. Within the scope of our industry restrictions, we therefore prioritize "green" transactions over transactions that are not identified as such.

The Group-wide standards described apply to all Group units but are also supplemented with local, sometimes more stringent, internal guidelines and policies by many of our network banks. They take into account, to varying extents, the social and environmental risk strategies of the respective bank, define sometimes higher minimum criteria or define the exact procedure for compliance with all of the agreed-upon principles.

The standards of the International Finance Corporation (IFC) and/or the Multilateral Investment Guarantee Agency (MIGA) apply at seven network banks: Raiffeisen Bank Sh.A. in Albania, Raiffeisen BANK d.d. Bosna i Hercegovina, Raiffeisen Bank Kosovo J.S.C., Raiffeisen Bank S.A. in Romania (which has also committed to compliance with the EBRD standards), Raiffeisen banka a.d. in Serbia, Priorbank JSC in Belarus, and AO Raiffeisenbank in Russia.

These network banks all have an Environmental and Social Management System (ESMS) and a corresponding Environmental and Social Policy (E&S Policy). This policy describes the principles of the ecological and social risk management in the bank and defines important roles and responsibilities for managing E&S risks as well as key elements of the E&S risk management process. An E&S Officer is nominated by the Management Board for each bank and is responsible for proper implementation within the bank. All employees involved in evaluating E&S risks receive appropriate training. The credit process ensures that all credit applications in the corporate customer area are reviewed in three steps, in addition to the usual credit and risk criteria:

1. Evaluating whether the company is engaged in activities on the IFC Exclusion List.
2. Categorizing the environmental and social (E&S) risk level depending on the type, location, noticeability, and size of the project as well as the nature and scope of its possible environmental and social impact (low, medium, or high).
3. Social and environmental impact assessment (E&S due diligence) for all transactions of high and medium risk: Determining the environmental and social impacts and risks of a project as well as determining whether it meets the laws of the respective country and other policies of the World Bank and IFC.

Also included are performance standards regarding work and labor conditions, resource efficiency and the avoidance of environmental pollution, public health and safety, land acquisition and forced relocations, retention of biodiversity and sustainable management of natural resources as well as indigenous peoples and cultural heritage (see the IFC website at www.ifc.org).